

AGREEMENT

This Agreement is made and entered into on this the 18 day of February 1997 by and between:

SIG Swiss Industrial Company
CH-8212 Neuhausen/Rhine Falls
Switzerland
(hereinafter called "SIG")

and

MEC, Ltd.
1783 Iron Works Pike
Lexington, KY 40511
USA
(hereinafter called "MEC")

WHEREAS, SIG is an industrial company engaged in a variety of commercial areas one of which is the design, manufacture, and sale of handguns; and

WHEREAS, MEC is an engineering consulting company engaged in a variety of commercial areas one of which is the design of handguns involving the application of electrical components; and

WHEREAS, SIG and MEC both believe that a commercial market exists for an innovative handgun incorporating an electrical locking mechanism that acts to restrict the use of such a weapon to only authorized users; and

WHEREAS, SIG would like to engage MEC to design a prototype of the handgun described above, which weapon, for ease of reference, shall be designated as an "electromechanical gun"; and

WHEREAS, MEC would like to produce such a design for SIG;

NOW THEREFORE, it is agreed as follows:

1. **PURPOSE:** MEC will design an electronically based locking/safety system for handguns which will limit the use of the weapon to only authorized users. The locking/safety system will be a modification to an existing SIG model handgun and be effectively an electromechanical application. MEC will produce two prototypes of this weapon, a functioning prototype and subsequently, a marketing prototype.

2. **SAFE GUN COMPONENT OVERVIEW:**

An electromechanical gun shall utilize an electronic safety applied and adapted for use on a conventional handgun, and a dedicated microprocessor powered electrically and activated by means of some device (referred to as the "actuator"). The

Exhibit 2

microprocessor, after activation will send instructions to a mechanical or electrical device which in turn will deactivate a mechanical safety thereby permitting the gun to be used. (See diagram attached hereto at Exhibit A). The actuator can be engaged only by authorized users, and authorization can be limited and controlled.

3. COMPONENTS DESCRIBED:

A. The Actuator:

The actuator shall be either a proximity device, tone pad, magnetic key, or precision resister, or a combination or variation thereof.

The choice of the actuator will be governed by what best preserves the utility of the firearm and still limits the control of the weapon to authorized individuals only.

B. The Power Supply:

The power supply must be reasonable, completely reliable, and fit unobtrusively without significantly changing the shape or appearance of the usual handgun. Reliability of the power supply is a controlling factor.

C. The Microprocessor:

A dedicated microprocessor shall be powered by the power supply and will send instructions to a miniaturized electrical/mechanical device which in turn shall deactivate the mechanical safety thereby unlocking the weapon.

D. Electromechanical Device:

An electromechanical device will be employed to act on a mechanical part to create a locking/safety device. The location and function of this device will be either a trigger block, hammer block, transfer bar block, or possibly another area involved in the transfer of power to the primer of the cartridge. Space considerations will be of paramount importance in this regard, as well as consideration of the possibility of an unauthorized modification to modify the weapon so as to defeat the safety system.

4. PERFORMANCE BENCHMARKS:

The project shall be divided and progress in three stages:

A. Stage 1: MEC will identify and explain both in writing and by rough diagram the proposed selection and operation of the actuator and electromechanical device, as well as the potential location of all components on or before May 31, 1997. It is understood that this identification is for approval of the

direction of the effort.

B. Stage 2: Following SIG's approval of Stage 1, MEC shall proceed to build a functioning prototype. The functioning prototype shall be a model created to illustrate and test the practicality of the design of the mechanism, powered and actuated however, by devices external to the weapon. Additionally, the functioning prototype may not necessarily have reduced all of the elements to the size required for a subsequent marketing prototype. The purpose of the functioning prototype is to merely demonstrate the viability and reliability of the approach taken without regard to fitting all the necessary components within the handgun itself.

C. Stage 3: Upon SIG's approval of the approach demonstrated by the functioning prototype, MEC will then proceed to incorporate and build that mechanism into a marketing prototype which will be a fully functional model in a form able to be marketed to the public under the SIG name. The purpose of the marketing prototype is to produce a commercial, as opposed to an experimental, model.

5. TIME FOR PERFORMANCE:

Stage 1 shall be completed by May 31, 1997. The functioning prototype shall be completed by September 30, 1997. The marketing prototype shall be completed by February 1, 1998. If at all possible, MEC will attempt to exceed those performance deadlines.

6. WORKING RELATIONSHIP WITH SIG:

SIG shall work closely together with MEC at all stages of the development. SIG shall offer suggestions as to the direction the work is taking. SIG may elect to support the work with technology of their own and may elect to supply equipment, parts and/or guns for use in the project, though it is under no obligation to do so.

MEC will provide a written detailed status report on at least a monthly basis to SIG, and will as appropriate, meet with SIG in the United States or Switzerland from time to time to discuss the direction and progress of the project. Naturally, MEC will respond to any inquiry SIG may have at any time.

MEC will also, submit to SIG any perceptions it may have on the character of the market, and suggestions for a marketing approach, though the marketing of the product is the sole province of SIG.

SIG will have the option of terminating the balance of the Agreement at any stage of the Agreement without any further liability to MEC.

The intent of this type of working relationship is to create an environment where MEC and SIG work efficiently together at all stages so as to minimize misdirection and wasted effort. At the conclusion of the work, SIG should end up with a product which meets the requirements of the market as perceived by SIG.

7. PAYMENT TO MEC:

MEC shall be paid with non-royalty amounts as follows:

- A. \$170,000.00 U.S. upon invoice following execution of this agreement;
- B. \$170,000.00 U.S. upon invoice following approval at completion of Stage 1; and
- C. \$170,000.00 U.S. upon invoice following approval at completion of Stage 2; and
- D. \$170,000.00 U.S. upon invoice following completion of Stage 3.

Any royalties payable hereunder shall be paid per SIG's usual procedure.

8. PATENTS AND ROYALTIES

Any systems or devices created capable of being patented, may be patented in the name of SIG, or patented and ownership transferred to SIG, as SIG would choose. Costs of patent protection will be SIG's expense, and selection of patent attorneys will be SIG's decision.

For the use of the electronically based locking/safety system for handguns developed by MEC, royalties will be payable to MEC, Ltd. based on the net value added to the weapon (and specifically not based on the either the gross or net selling price of the weapon) at the following rates:

- 2% for sales within December 31, 2000
- 1% for sales after December 31, 2000 but within December 31, 2002
- 0.5% for sales after December 31, 2002 but within December 31, 2003

9. NON-INFRINGEMENT OF THIRD PARTIES RIGHTS:

MEC warrants that it will not, by developing and designing the electronically based locking/safety system for handguns, infringe any third parties rights. MEC shall hold harmless SIG and all companies belonging to the SIG-Group and using the MEC electronically based locking/safety system for handguns from any damage, liability costs or whatsoever which might arise from MEC's infringement of third parties rights.

10. OWNERSHIP OF TECHNOLOGY RIGHTS UPON PREMATURE TERMINATION:

As contemplated above, SIG may terminate this Agreement at any stage without obligation for future payment of any non-royalty amounts. MEC of course, will be identifying in detail at the early stages of this Agreement, its concept for this type of weapon. In the event SIG should choose to terminate this Agreement prior to full funding thereof, then in such event SIG will not be entitled to ownership or use of any of the information or technology disclosed to it by MEC under the performance of this agreement, unless of course, it was information or technology known to SIG

prior to the execution of the Non-Disclosure and Proprietary Information Agreement previously executed by SIG and MEC.

Should the Agreement be fully funded, SIG shall have the exclusive rights to the information and technology as outlined in paragraph 8 above.

11. JURISDICTION AND LAW:

This Agreement shall be governed by and interpreted according to the Swiss Law. Any disputes, controversies or claims arising out of or pertaining to this Agreement or breach hereof which cannot be amicably settled between the parties hereof shall be finally submitted to and settled by the Courts of Schaffhausen.

If SIG is the plaintiff, it may bring action before the competent Court of the place where MEC has its registered domicile.

12. ENTIRE AGREEMENT AND NOTICES:

This writing represents the entire agreement of the parties and any modification to this Agreement, to be effective, shall be in writing, dated, and signed by two representatives of each of the parties. There are no other agreements, verbal or written, executed either prior to or contemporaneously herewith, between the parties that would vary or contradict any of the terms of this Agreement.

Any notices which are date sensitive shall be sent shall be sent by certified mail or courier to the party at the address listed hereinbelow, and shall be considered effective either upon actual receipt, or seven days after sending, whichever is earlier.

SIG Swiss Industrial Company
CH-8212 Neuhausen Rhine Falls
Switzerland

By: *H. Roduner*

By: *O. V. D. S. S.*

Title: *Head of the Business Unit Small Arms*

Title: *Business Dev. / Projects*

Date: *25. Feb 97*

Date: *25 Feb. 97*

MEC, Ltd.
1783 Iron Works Pike
Lexington, KY 40511
USA

By: *Tony A. Hancock*

Tony A. Hancock

By: *Jonathan Doran Buckley*

Jonathan Doran Buckley

Title: President

Title: Vice-President

Date: *2/18/97*

Date: *18 Feb 97*